



Fall is Here!

Yes, summer is done and we're now into the fall season. What does fall typically bring to us as it is related to the real estate market? We tend to get one last push before the holiday season begins (Thanksgiving). This year we are still seeing a push but not as big of one as before. Interest rates are still attractive but there seems to be a lot of buyers who are sitting on the fence waiting to see how our market shakes out. There has been a lot of negative press about the "bubble", and how our market is starting to drop. I can say that our market has slowed

down but it has not dropped. We are seeing Sellers become more realistic and are now pricing their homes based on today's market versus what was taking place in the spring. Those who are sticking to their prices are noticing fewer showings and longer market times, and those who are adjusting are coming out ahead. Price reductions and Seller concessions are starting to become the norm once again. But, I honestly believe that the market will go crazy once again come February so you Buyers on the fence should think about taking a leap into the market.

How am I doing? I am currently at 25 transactions and on pace to set a new record for me as far as dollar volume. I've had many referrals and I truly appreciate you thinking of me. If you have any questions, or have any friends/relatives who have any questions, please don't hesitate to contact me. Thanks again! I wouldn't be successful without all of you! :-)

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Housing Bust? No, a Cyclical Correction

by Kenneth R. Hamey

With all the dismal reports about the home real-estate market, don't lose track of something critically important: Mortgage interest rates have been falling quietly but steadily for weeks, and are now at their lowest level in half a year, barely a percentage point above 40-year lows.

New mortgage applications are up sharply, the number of pending home sales is up, the national economy continues to expand moderately, and the rate of unemployment just declined again — to 4.6 percent. All of which begs the question: Just what kind of housing bust is this anyway? With gloom-and-doom purveyors forecasting imminent crashes in dozens of metropolitan areas, how could such key fundamentals as jobs, interest rates and even pending home sales simultaneously be trending in the opposite direction?

Donald L. Kohn, the Federal Reserve's vice chairman, took a stab at that seeming conundrum in a speech Oct. 4 at New York University. His views are worth keeping in mind if you want to put the negative news on home prices and sales in perspective.

To begin with the fundamental point: Kohn sees no imminent bust or crash in housing at all. It is a "correction" that's under way — a cyclical rebalancing of a marketplace that got too hot for too long in some parts of the country, and is now heading back toward more "normal" conditions, where prices are more in line with what consumers can afford.

"The reported declines in house prices in a number of areas should help to facilitate the rebalancing of supply and demand in those markets," Kohn said.

Not all home sellers have fully grasped the altered realities in their markets — that they've got to reduce their asking prices if they truly want to sell — so the process is still unfolding. Re-priced houses, in turn, should stimulate greater numbers of potential buyers to get off the sidelines and make offers.

The nationwide 4.3 percent increase in pending home-sales contracts, reported Oct. 2 by the National Association of Realtors, could be a sign that Kohn's prediction is already taking shape.

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justthefacts						
NWMLS Statistics for King, Pierce, & Snohomish counties						
Month of September 2006						
Residential						
	Closed Sales		Median Sale Price		% Increase	Market
	2006	2005	2006	2005	in Sale Price	Time
King	2358	2958	\$ 425,000	\$ 381,250	11.48%	43
Pierce	1289	1476	\$ 313,201	\$ 276,931	13.10%	60
Snohomish	1156	1392	\$ 393,582	\$ 346,032	13.74%	50
Condo						
	Closed Sales		Median Sale Price		% Increase	Market
	2006	2005	2006	2005	in Sale Price	Time
King	886	888	\$ 304,209	\$ 264,360	15.07%	37
Pierce	85	90	\$ 259,955	\$ 210,957	23.23%	57
Snohomish	261	184	\$ 231,126	\$ 218,007	6.02%	34

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Second, said Kohn, the housing correction — expressed through new home starts — “may be closer to (its) trough than to (its) peak.” Translating from Fed-speak, this means that we appear to be well on our way toward returning to positive growth in new-home starts and resales.

Now to interest rates: Today’s unusually low long-term mortgage-rate environment “stands in sharp contrast to some past downturns in the housing market that followed actions by the Federal Reserve to tighten credit conditions significantly.”

Translation: Affordable mortgage money should help shorten the current housing down cycle compared to credit-squeezed periods in the 1980s, when mortgage rates sometimes exceeded 16 percent for fixed-rate loans.

A final key factor, Kohn said: “Continuing growth in real incomes should underpin the demand for housing, and as home prices stop rising, help erode affordability constraints.”

Add it all up: Lower asking and selling prices on houses are integral parts of the self-correction and should help shorten the whole process. Lower interest rates should make those lower prices affordable to a broader number of potential buyers. That could become an even more important factor if mortgage rates dip below 6 percent in the coming months, as some Wall Street capital-market analysts expect.

James Glassman, a managing director at JP Morgan Chase, says 30-year fixed-rate mortgages at 5.75 percent are a distinct possibility if long-term rates in the global bond market continue to ease.

The current cyclical downturn in housing “is not your classic interest-rate story,” Glassman says. Money is available at low cost, and there’s a good possibility “it won’t be long before we work through this.”

The source of some of the confusion about just where housing is headed, and how bad things are likely to get?

Mike Moran, chief economist of Wall Street’s Daiwa Securities America, minces no words: The financial press and TV news shows are overly dramatizing what is a normal and long-predicted cyclical rebalancing, and “portraying it as a catastrophe.”

“[Housing] is going through a correction that’s badly needed,” Moran said. “The key issue is whether it is orderly or disorderly.”

And all signs point to a continued orderly process, not a breakout bust or panic.

Doug Duncan, chief economist of the Mortgage Bankers Association, points out that national housing-sales numbers are merely rolling back to 2003 levels — “and that was a record year.”

Serious sellers and buyers shouldn’t be misled by predictions of imminent crashes, Duncan says. Not only do the doom reports ignore the positives out there in the marketplace — mortgage rates in particular — but “the rhetoric is just way overwrought.”

Economic Report

Last week, the bond market ran out of gas on speculations that the economy still has some growth potential left. While many market participants were expecting that the Fed would start cutting the rates as early as January 2007, the minutes released from the Fed’s FOMC September 20 meeting indicate the voting members of the committee believe inflation will decline gradually, but risks remain tilted toward higher inflation. The members also acknowledge the contraction of the housing sector. However, they note that the spill-over effect to other sectors of the economy has not yet been significant and that consumer spending is still on a roll.

The minutes confirmed what several members of the Fed had already made clear in their speeches in the last two weeks. The market didn’t seem to take it for granted until the release of the minutes. As a result, the treasury prices tumbled and their yields hit three-week highs, with the benchmark 10-year T-note hitting 4.81% from 4.70% last week. Even after the Fed’s position that they won’t ease rates in the near future became clearer, many Street dealers still maintain their

forecasts of rate cuts early next year. Yet those that got excited about rate decreases in September this year will have to sit tight and wait for more economic data that shows signs of a slowdown.

So, should we believe the Fed saying the economy still has growth potential, or should we believe the yield curve inversion, a market phenomenon that has never failed in the past to signal an economic slowdown or a recession?

Those riding the Fed’s bandwagon will argue the fact that the economy created 50% more jobs than initially estimated; that consumer spending continues at a healthy pace and doesn’t show effects of the slowing housing market; and that the recent decline in energy prices will redirect some cash from the gas pump to the retail stores.

Those riding the yield curve will argue that an economic slowdown or a recession is on the way, given the prolonged inversion of the yield curve and the six-month decline of the

Leading Indicators Index. This index, comprised of ten different economic indicators, has declined on a six month basis thirteen times since 1952. Nine recessions and four slowdowns followed each of these contractions. Moreover, a simultaneous yield curve inversion and a six month decline in the Leading Indicators Index have occurred seven times in the past 60 years, six of which were followed by a recession.



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